ANNUAL BUDGET OF

MOQHAKA LOCAL MUNICIPALITY

"People's power in action"

2019/20 TO 2021/22

MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK 2019/20 TO 2021/22

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Annual Budget

(a) Executive Mayor's Speech

The Mayor's speech will accompany the final budget approval process.

(b) Council Resolutions

The Council take note of the following resolutions for the annual budget of 2019/20 to 2021/22 financial period:

The Council of Moqhaka Local Municipality, acting in terms of *section 24* of the Local Government: Municipal Financial Management Act (Act 56 of 2003) adopts the budget for the 2019/20 MTREF.

The annual budget of the municipality for the financial year 2019/20 and the multi-year and single-year capital appropriations as set out in the following tables:

i. Budget Summary as per Table A1,
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1. Executive Summary

1.1 Introduction

The application of sound financial management principles for the compilation of the Municipality's financial plan is essential and critical to ensure that the Municipality remains financially viable and that municipal services are provided sustainably, economically, equitably and efficiently to the entire community. The Municipal Budget and Reporting Regulations, as well as various circulars as issued by National Treasury has been used as a guiding tool for the budget preparation by Local Government.

The National Treasury's MFMA Circulars No.93 and 94 were used to guide the compilation of the 2019/20 MTREF.

The compilation of the MTREF remains a significant challenge to balance the budget between the limited revenue resources available and the immense need to provide quality basic service delivery to our community. Tariff increases must be limited to be within the affordability levels of our community and must still promote economic growth and to ensure financial sustainability the tariffs must be cost reflective.

The municipality's financial health position continues to deteriorate and as such needs to be stabilised and to strive to continuously better its financial position, complimented by acceptable levels of service delivery at affordable tariffs. The retention/maintenance of sufficient cash-backed reserves is critical for the sustainability of the municipality.

The recently promulgated amendments to the Public Audit Act (2004, amended 2018) increase the powers of the Auditor-General. New powers include setting binding remedial actions if previous recommendations are not implemented, referring material irregularities for further investigation, and issuing a certificate of debt where an accounting officer has failed to recover money. These more robust powers will complement the work of the recently established municipal public accounts committees (MPAC), which are responsible for improving accountability.

1.2 mSCOA Implementation

The municipal standard chart of accounts or mSCOA was developed by National Treasury to standardise financial reporting and related information across all municipalities in the country. The Minister of Finance subsequently gazetted the Municipal Regulations on Standard Chart of accounts on the 22 April 2014. These regulations provided for full compliance with the standard chart of accounts classification framework and became effective on 1 July 2017.

The Implementation of the national mSCOA establishes a uniform standard and form for all municipalities, that is, the items within their accounting records. This will result in unvarying treatment of these basic items for purposes of definition, planning (budgeting), accounting, reporting, etc. throughout the country. The detailed mSCOA requirements and classification are contained in spreadsheets issued by NT and are also referred to as the mSCOA grid. The grid contains the classification framework for the seven mSCOA segments of Project, Function, Item, Funding, Regional, Costing and Standard Classification. The National Treasury Technical Committee issues regular updates to this grid, with version management, to accommodate requests from municipalities and other regulatory stakeholders.

The Moqhaka Local Municipality did comply with the requirements of the mSCOA Regulations as approved by the Finance Minister. The municipality's mSCOA compliance was further reviewed by the Provincial Treasury on the 25 January 2019. The findings that were raised were corrected during the adjustment budget process of 2018/19 and the remainder of the findings were corrected during the compilation of the Annual Budget 2019/20.

NT MFMA Circular No 93 requires the municipalities to make use of mSCOA Version 6.3 of the A1 schedule be used for the compilation of the 2019/20 MTREF. The 2019/20 MTREF was drafted using the version 6.3 of mSCOA.

1.3 Economic Overview

The South African GDP growth forecast for 2019 has been revised to 1.5 per cent, from an estimated 1.7 per cent at the time of the Medium Term Budget Policy Statement (MTBPS). The weaker outlook projects a slow improvement in production and employment following poor investment growth in 2018, and a moderation in global trade and investment.

South Africa has dropped from 44th (2007) on the Global Competitiveness Index. And between 2008 and 2018, South Africa's ranking fell from 35th to 82nd in the World Bank's

Ease of Doing Business report. This has some negative implications on the municipality and the country at large, as we are not in a position to attract international investors including the private sector to work together to finance sustainable social and economic infrastructure projects.

Crucially, the NDP emphasises the need for a capable state, including well-functioning state-owned companies and municipalities, to anchor sustainable, inclusive and shared growth. Many of the problems experienced at state-owned companies and municipalities can be addressed by introducing more competition, strengthening independent regulatory authorities and introducing strategic equity partners (in the form of Public Private Partnerships-PPP). Complementary efforts to reorganise the state will enhance the capacity of government to implement reforms that can raise living standards for all.

The country's current account deficit as a percentage of GDP widened to 3.8 per cent in the first three quarters of 2018, compared with a deficit of 2.3 per cent over the same period in 2017. Over the medium term, the deficit is expected to widen from 3.4 per cent of GDP in 2019 to 4 per cent in 2021.

The legislation governing local planning and budgeting emphasises community participation in decision-making. The partnership between municipalities and communities relies on the public recognising the value of, and paying for, municipal services. Over the medium term, equitable share allocations, which fund free basic services for low-income households, grow faster than inflation to account for household growth and higher costs of services. But, for most municipalities, own revenues are a larger proportion of their funding than transfers. **Their sustainability depends on how they collect and spend their own revenues.**

<u>Problems in revenue management are the largest contributor to financial distress in local government. Households, followed by commercial customers and government, owe the largest share of outstanding municipal revenue. Weak revenue collection affects payments to suppliers and the sustainability of services, which ultimately cast a significant doubt on the municipality's ability to continue as a going concern.</u>

1.4 Budget Overview

There are three budgets tabled for approval by Council, the operating expenditure budget, the operating revenue budget and the capital budget.

Table 1 Consolidated Overview of the MTREF

R thousand	Adjustment Budget 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21	Budget Year +3 2021/22
Total Operating Revenue	808 109	890 360	938 440	989 115
Total Operating Expenditure	787 299	864 699	911 393	960 608
Surplus/(Deficit) for the year	***20 810***	***25 661***	***27 047***	***28 507***
Total Capital Expenditure	**70 219**	**66 283**	**69 862**	**73 635**

Total operating revenue has been appropriated at **R890** million. When compared to the 2018/19 Adjustment Budget, operational revenue has grown by **10%.** This is mainly due to the increase in the municipal equitable share, the increase in the service charges which is aimed at improving the services to be cost reflective and to achieve financial sustainability. For the two outer years, operational revenue is anticipated to increase by 5.4% and 5.4% respectively.

Total operating expenditure for the 2019/20 financial year has been appropriated at **R865** million. When compared to the 2018/19 Adjustments Budget, operational expenditure has been projected at **10%** in the 2019/20 budget and by 5.4% and 5.4% for each of the respective outer years of the MTREF. The anticipated surpluses to be raised will be used to fund capital expenditure and to further ensure cash backing of funds and reserves.

The capital budget amounts to **R80** million for 2019/20, which is a R9.8 million increase from 2018/19 Adjustment Budget. This is mainly due to the increased Water Services Infrastructure Grant and the increase with regards to the Own Funding Capital. The capital budget will mainly be funded from grants over the MTREF with gazetted grants of **R55** million as per the Division of Revenue bill 2019/20 and **R25** million from the municipal own funding.

2. The following budget principles and guidelines directly informed the compilation of the 2019/20 MTREF:

- The 2018/19 Adjustment Budget priorities and targets, as well as the base line allocations contained in that Adjustment Budget were adopted as the upper limits for the new baselines for the 2019/20 annual budget;
- Zero based budgeting methodology was adopted in the compilation of the Capital Budget;
- Tariffs and Property Rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality;

- **Tariffs need to remain or move towards being cost reflective, and should take into account the need to address the infrastructure backlogs and maintenance thereof;**
- The necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the Annual Division of Revenue Act.

3. <u>Tariff Setting</u>

There are several tools available and methodologies employed to determine the appropriate tariffs. The municipality may favour different approaches but the principles of tariff setting should be consistently applied. The municipality should consider the following practicalities when setting tariffs:

- Costs of bulk purchases (Electricity & Water) and the fluctuation in the seasonal cost {time-of-use-tariffs} thereof;
- Consumption patterns to enable better demand management and planning; and
- In the event that the municipality has been under recovering costs, embark on a process to correct the tariff structures over a reasonable time period so that cost reflective tariffs are phased in, in a manner that spreads the impact on consumers over a reasonable period of time.

The tariff setting process is reliant on sound baseline information such as the number of properties within the municipal area of jurisdiction, the values of these properties, the number of households identified as indigent/poor, the consumption patterns in respect of basic services and the growth patterns within the various geographic areas.

The inflation rate forecasts as per the MFMA Circular no. 94 issued by National Treasury has been used on the MTREF. The maximum of **6%** growth rate was pronounced on the Revenue tariffs increases. However, some tariffs are higher than the stipulated percentage as these are based on recovering the cost of delivering the respective services and ensuring that the municipality is sustainable.

4. <u>The Council of Moqhaka Local Municipality, acting in terms of Section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts the following tariffs as set out and included in the budget documentation, with effect from 01 July 2019: (Average Increases)</u>

The proposed revisions to the tariffs have been formulated in accordance with the municipality's Tariff and Rates Policy and complies with Section 74 of the Municipal Systems Act as well as the recommendations of the National Energy Regulator of South Africa (NERSA). In terms of Section 75A of the Local Government Municipal Systems Act, any fees, charges or tariffs which a municipality may wish to levy and recover in respect of any function or service of the municipality, must be approved by a resolution passed by the municipal Council with a supporting vote of a majority of its members.

Description	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Property Rates	7%	6%	6%	**9%**	9%	8%
Electricity	8%	1.88%	6.84%	**9.41%**	9%	9%
Water	8%	10%	10.5%	**6%**	6.5%	7%
Sewerage	8%	8%	10%	**6%**	7%	7.5%
Refuse	26%	38%	9%	**6%**	6.5%	6%
Other Income	8%	30%	6%	**9%**	6%	7%

*** Detailed tariff list is attached as **Annexure F**

The Property Rates tariff increases mainly relates to provision of funding for the servicing/maintenance of the municipal roads. The municipality has recently received its report on the condition of its roads. This process was undertaken by Rural Roads Asset Management System (RRAMS) and it was determined subsequent to the municipal roads verification process that the total funding required to get all municipal roads in a good condition, it will cost the municipality **R530m** in this regard.

To achieving this, the road maintenance expenditure will be phased-in over a 5-year period so as to minimise the economic burden on consumers. The impact of this resulted in an average increase of **9%** in relation on property rates.

The Council, in compliance with Section 14 of the Local Government: Municipal Property Rates Act, 2004 notes and tables to Council for approval the property rates increases as set out as per the tariff list attached as **Annexure F.**

5. The main challenges experienced during the compilation of the MTREF can be summarised as follows:

- The ongoing economic difficulties in relation to the national and local economic growth;
- The aging and inadequately maintained water, roads, sewer and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource basket given the cash flow realities and declining cash position of the municipality coupled with the ongoing increase of the municipality's debtors book;
- The increased cost of electricity (due to tariff increases as approved by NERSA);
- Wage increases for municipal staff that continues to exceed consumer inflation, as well as the need to fill critical vacancies to augment basic service delivery;
- Availability of affordable capital/borrowing;

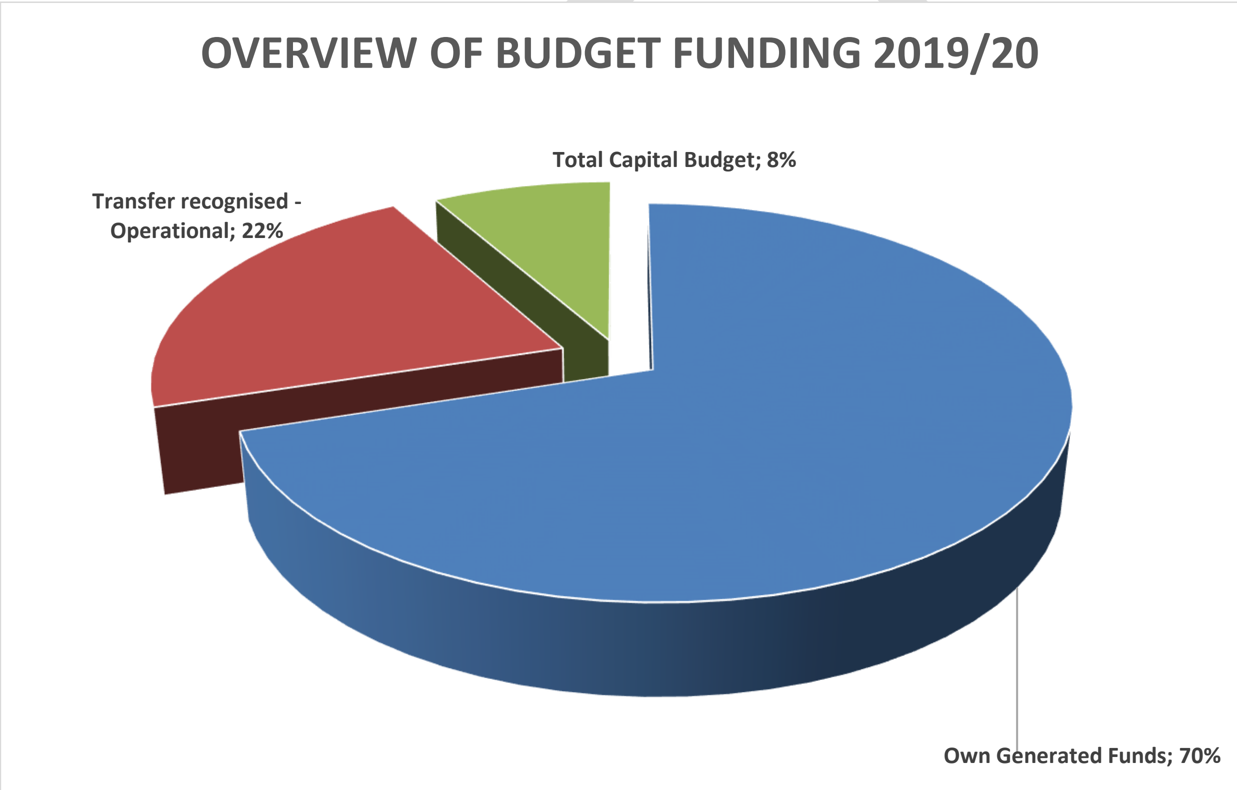
6. Overview of Budget Funding

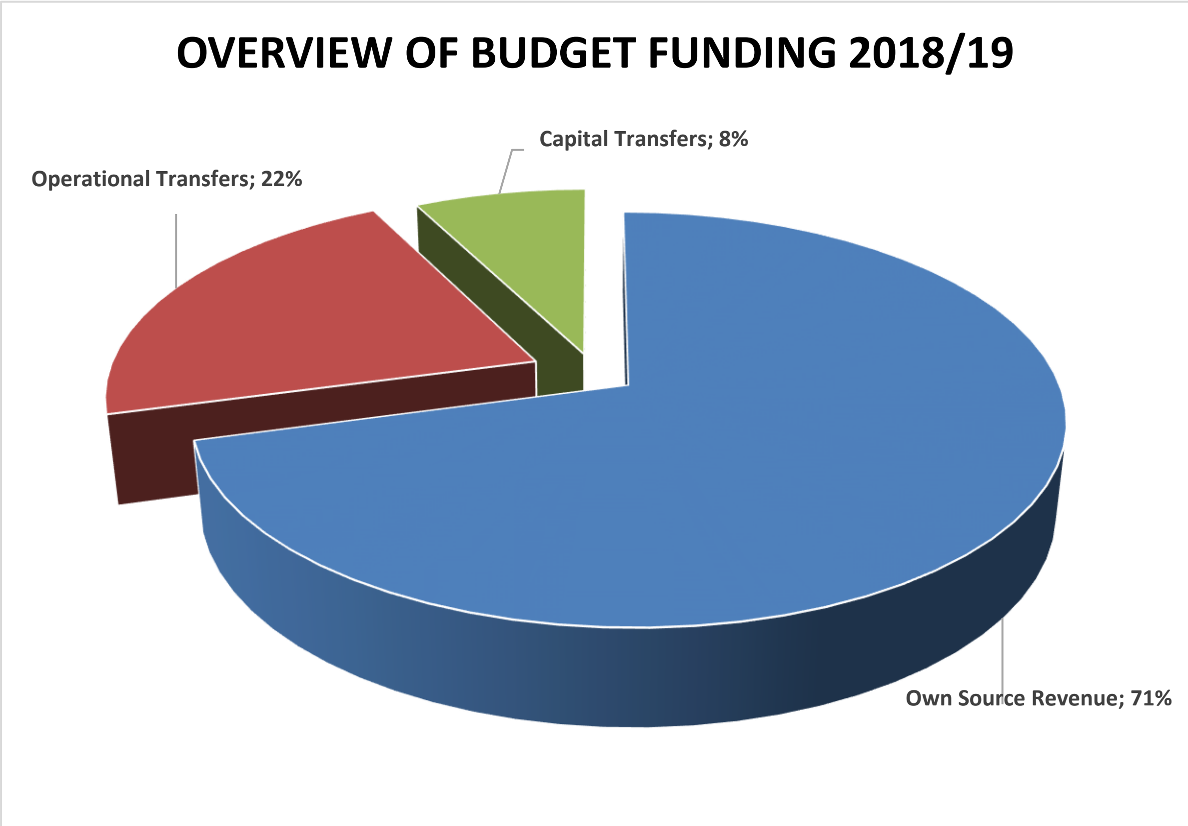
In line with Section 18 (1) of the MFMA which states that an annual budget may only be funded from:

- ✓ Realistically anticipated revenues to be collected;
- ✓ Cash backed accumulated funds from the previous years' surpluses not committed for other purposes; and
- ✓ Borrowed funds, but only for the capital budget referred to in Section 17.

The importance of tabling funded budgets is highlighted in MFMA Circular No. 74.

The achievement of this requirement in totality effectively means that the Council has "Balanced" its annual budget by ensuring that budgeted outflows will be offset by a combination of planned inflows. Refer to Table A7 Budgeted Cash Flows and Table A8 Cash backed reserves/accumulated surplus reconciliation.





The Municipality continues to display a volatile financial profile and low liquidity levels, which is mainly attributable to:

- Credible and funded budgets funded from current financial year's revenue. Prior year's surpluses have not been used to support the operating budget.
- The municipality operates within its annual budget, as approved by Council.
- The municipality maintains a positive cash and investments position.

In compliance with relevant statutory requirements, the Financial Plan (Medium Term Revenue and Expenditure Framework-MTREF) is reviewed and updated annually.

The Capital budget is mainly funded by the allocations received by the municipality from National and Provincial Government in the form of grants, as well as public contributions and donations, borrowings and internally generated funds.

The municipality raises revenue from a basket of differential tariff increases determined in the most acceptable and equitable funding regime taking into consideration the actual cost of delivering services, budget priorities and national legislation, regulations and policy guidelines. The municipal revenue comprises of operating revenue which includes property taxes, services charges and operating grants- and capital revenue which consists of capital grants, borrowings, cash reserves and operating surplus.

This high level of independent and relative stable income sources of revenue is one of the key factors that support the sound financial position of the municipality. In addition to the obvious need to grow the city's revenue by increasing its tax base, other means for securing funding for Council projects must be explored in a variety of ways. The municipality faces unpleasant choices in attempting to finance the projected levels of investment in infrastructure. Sources of capital finance are already stretched with limited scope for further borrowing, consumer pressure to restrict tariff and tax increases, and little likelihood of a structural upward adjustment in grant allocations. Further, efficiencies in the borrowing programme will continue to be sought to lock in lower cost and longer term borrowing, plus the introduction of new revenue sources such as infrastructure contribution and charges.

7. Operating Revenue Framework

The municipality generates income from various sources such as exchange and non-exchange transactions. Revenue from exchange transactions is generated mainly from trading services. The municipality has adopted a consolidated billing system for both exchange and non-exchange transactions for municipal services. Billing is therefore done systematically based on fixed monthly tariffs for services as well as consumption based billing for metered services.

For Moqhaka Local Municipality to continue improving the quality of basic services provided to its citizens it needs to generate the required level of revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and high poverty and unemployment rate in our area.

The expenditure required to address these challenges will inevitably always exceed available funding, taking into account the subsidies that the municipality needs to provide to the poor, hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

7.1 The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macro-economic policy;
- Projected growth and growth in demand for services;
- Realistic projections of revenue and collection thereof, as well as strategies for debtor's management;
- Improving the effectiveness of revenue management processes and procedures;
- Efficient revenue management, which aims to ensure a **95%** annual collection rate for property rates and service charges as required by MFMA Circular No. 71;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Paying special attention to cost containment measures by, amongst other things, controlling unnecessary spending on nice-to-have items and non-essential activities as was highlighted in MFMA Circular No.82;

- Determination of tariffs for trading services in a cost reflective and a cost recovery manner;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service in order to achieve cost reflective tariffs (or Break-Even-Point);
- The municipality's Property Rates Policy approved by Council in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- The municipality's Indigent Policy and the rendering of free basic services; and
- Curbing consumption of water and electricity by indigents to ensure that they do not exceed their allocated benefits.

The financial sustainability of the 2019/20 MTREF is largely dependent on the collection level of the anticipated revenue. Provision is made in the budget for a **collection rate of 85%**. To achieve this collection, Moqhaka Local Municipality is looking to implement more robust credit and debt control measures, which will ensure that all consumers who can afford to pay for services rendered do pay for those services and those who cannot afford to pay for the services are registered accordingly as indigents in terms of the municipality's indigent policy. This rate is in relation to the 2019/20 financial year revenue collection, and does not take into account the collection efforts of the municipality with regards to its outstanding consumer debt.

In terms of Council's social commitment to assist the poor communities within Moqhaka the supply of free basic services and social contributions to identified structures in Moqhaka remains a priority in order to ensure basic service delivery.

In view of the aforementioned, the following table provides a consolidated overview of the proposed Medium-term Revenue and Expenditure Framework:

Table 2 Summary of revenue classified by municipal votes (A3)

Revenue by Municipal Vote				
Vote Description		2019/20 MTREF		
R thousand	Adjustment Budget 2018/19	Budget year 2019/20	Budget year 2020/21	Budget Year 2021/22
Revenue by Vote				
Vote 1 - Councillors	129 447	146 871	154 802	163 161
Vote 2 - Office of the municipal manager	–	–	–	–
Vote 3 - Corporate Services	1 803	851	897	945
Vote 4 - Finance	71 328	90 233	95 106	100 241
Vote 5 - Technical Services	592 303	645 365	680 215	716 946
Vote 6 - Community and Emergency Services	49 207	52 171	54 988	57 958
Vote 7 - Local Economic Development and Planning	14 085	10 041	10 583	11 155
Total Revenue by Vote	**858 173**	**945 532**	**996 591**	**1 050 407**

The following table is a summary of the MTREF classified by main revenue source

Table 3 Summary of revenue classified by main revenue source (A4)

Revenue types			
R thousand	**Adjustment Budget Year 2018/19**	**Budget Year 2019/20**	**%**
Property rates	64 340	80 505	**25%**
Service Charges:Electricity	313 640	340 786	**9%**
Service Charges: Water	120 009	131 245	**9%**
Service Charges: Sanitation	41 922	45 471	**8%**
Service Charges: Refuse	31 097	32 974	**6%**
Rental of Facilities	8 989	8 027	**-11%**
Interest : External Investments	1 420	1 505	**6%**
Interest: Outstanding Debtors	21 677	25 172	**16%**
Dividends	–	–	**-**
Fines, penalties and forteits	5 976	6 452	**8%**
Transfers Recognised Operational	189 902	209 803	**10%**
Other Revenue	10 727	8 420	**-22%**
Total Revenue (Excluding capital grants)	**809 699**	**890 360**	**10%**

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculated operating surplus/deficit.

Revenue generated from **rates and service charges** comprise a significant percentage (70%) of the revenue basket for the Municipality. Rates and service charge revenues comprise more than two thirds of the total revenue mix. In the 2019/20 financial year, revenue from rates and services charges amounted to **R631** million. This effectively means that the municipality is highly dependent on its consumers/community to pay for the services rendered in order to enable the municipality to continue rendering these services consistently so. The municipal funding composition is outlined in section 6 of this document.

REMARKS

REFUSE

Revenues from Solid Waste Management increased on average by **6%**. This increase is within the upper limits as required by MFMA Circular No. 94. The tariff is based on the costs of delivering the service. This is a progressive increase in ensuring that the tariffs are cost reflective, and that the division results in financial sustainability.

It was also determined by the municipality that one of the contributors to the Solid Waste expenditure relates to the excessive time spent (which leads to overtime been worked in most cases) collecting refuse that is kept in containers which does not comply with the required specifications as outlined in the Provincial Gazette of 13 March 2015,
which defines a "bin" as follows;
"bin - means a standard type of refuse bin with a capacity of 0.1 cubic meters or 85 litres as approved by the Municipality and which can be supplied by the Municipality. The bin may be constructed of galvanised iron, rubber or polythene;
bin liner-means a plastic bag approved by the Municipality which is placed inside a bin with a maximum capacity of 0.1 cubic meters. These bags must be of a dark colour, 950 mm x 750 mm in size, of low density minimum 40 micrometer diameter or 20 micrometer diameter high density;"

It is against this background that the municipality cannot continue to collect refuse that is not kept in acceptable containers as indicated above. *(it should also be noted that any refuse placed in mealie bags, the bags will not be returned only the refuse bins will be returned).*

OTHER REVENUE

Other revenue component increased on average by **9%**. This was as a result of the alignment of the costs involved in rendering these services, so as to ensure that the municipality does not run these services at a loss which will ultimately affect the municipality's going concern.

Other revenue comprises of various items such as income received from building plan fees, connection fees, rental of properties and advertisement fees. Departments have been urged to review the tariffs of these items on an annual basis to ensure they are cost reflective, market related and financially sustainable. This will also enable the municipality to have sufficient resources to affect the necessary repairs and maintenance to keep the properties on a good condition.

8. OPERATIONAL TRANSFERS

The Operating grants and transfers amounted to **R189** million in the 2018/19 financial year and the grants increased to **R210** million for the 2019/20 financial year. This is mainly because of the increase in the municipal equitable share allocation and the increase in the Water Services Infrastructure Grant.

Table 4 Operating Transfers and Grant Receipts (SA18)

FS201 Moqhaka - Supporting Table SA18 Transfers and grant receipts

DESCRIPTION	REF	Budget Year 2018/19	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
		Adjusted Budget			
R thousands					
RECEIPTS:	1, 2				
Operating Transfers and Grants					
National Government:		**187 902**	**208 451**	**206 670**	**223 900**
Local Government Equitable Share		185 144	205 660	203 848	221 685
LG Seta	3	543	576	607	–
Finance Management Grant		2 215	2 215	2 215	2 215
EPWP Incentive		**1 000**	**1 000**	**–**	–
EPWP Incentive	5	1 000	1 000	–	–
Provincial Government:		**1 000**	**–**	**–**	**–**
Limited Financial and Infrastructure Support to Municipalities		1 000	–	–	–
District Municipality:		**–**	**–**		**–**
Other grant providers:		**–**	**–**		**–**
Total Operating Transfers and Grants	6	**189 902**	**209 451**	**206 670**	**223 900**
Capital Transfers and Grants					
National Government:		**49 410**	**55 178**	**58 213**	**61 414**
Municipal Infrastructure Grant (MIG)		39 410	40 178	42 388	44 719
Water Services Infrastructure Grant		10 000	15 000	15 825	16 695
EPWP		–	–	–	–
DOE		–	–	–	–
EPWP Incentive		**–**	**–**	**–**	**–**
District Municipality:		**–**	**–**	**–**	**–**
[insert description]					
Other grant providers:		**–**	**–**	**–**	**–**
[insert description]					
Total Capital Transfers and Grants	6	**49 410**	**55 178**	**58 213**	**61 414**
TOTAL RECEIPTS OF TRANSFERS & GRANTS		**239 312**	**264 629**	**264 883**	**285 314**

9. Operating Expenditure Framework

The Municipality's expenditure framework for the 2019/20 budget and MTREF is informed by the following:

- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of no project plans no budget. If there is no business plan no funding allocation can be made.

Table 5 Summary of operating expenditure by municipal votes (A3)

Expenditure by Municipal Vote				
Vote Description		2019/20 MTREF		
R thousand	Adjustment Budget 2018/19	Budget year 2019/20	Budget year 2020/21	Budget Year 2021/22
Expenditure by Vote *to be appropriated*				
Vote 1 - Councillors	62 504	65 793	69 346	73 090 496.39
Vote 2 - Office of the municipal manager	16 139	16 393	17 278	18 211
Vote 3 - Corporate Services	36 025	38 704	40 794	42 997
Vote 4 - Finance	33 636	37 273	39 286	41 407
Vote 5 - Technical Services	472 297	520 190	548 280	577 887
Vote 6 - Community and Emergency Services	141 798	159 806	168 436	177 531
Vote 7 - Local Economic Development and Planning	24 899	26 541	27 974	29 485
Total Expenditure by Vote	**787 298**	**864 700**	**911 394**	**960 609**

10. The following table is a high level summary of the 2019/20 budget and MTREF (classified per main type of operating expenditure):

Table 6: Summary of operating expenditure by standard classification (A4)

OPERATING EXPENSES			
Description R thousand	**Adjustment Budget Year 2018/19**	**Budget Year 2019/20**	**%**
Employee Related Cost	258 886	277 258	**7%**
Remuneration of Councillors	18 378	19 483	**6%**
Bulk Purchases	251 260	295 214	**17%**
Contracted Services	112 685	121 546	**8%**
Other Materials	10 648	11 117	**4%**
Depreciation & Asset Impairment	32 908	35 451	**8%**
Finance charges	3 140	3 297	**5%**
Debt Impairment	10 133	11 014	**9%**
General Expenses	88 260	90 319	**2%**
Total Expenditure (Excluding capital grants)	**786 298**	**864 699**	**10%**

REMARKS

The budgeted allocation for employee related costs for the 2018/19 financial year totals R277 million, which equates to 32% of the total operating expenditure. A provisional increase of 7% has been provided for.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the respective budget.

The cost associated with the remuneration of the municipality's senior managers is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Local Government: Upper Limits of Total Remuneration Packages payable to Municipal Managers and Managers directly accountable to Municipal Manager. The most recent proclamation in this regard has been taken into account in compiling the respective budget.

Bulk purchases are directly informed by the purchase of electricity from Eskom. The annual price increases as approved by NERSA (National Energy Regulator of South Africa) have been factored at 15.63% into the budget appropriation and directly inform the revenue provisions. The expenditure also incorporates the reticulation losses.

Provision for depreciation and asset impairment is informed by the Municipality's Asset Management Policy and in particular the Asset Register. Depreciation is widely considered a proxy for the measurement of the asset consumption rate. It should be noted that the implementation of GRAP 17 accounting standard as required by National Treasury has resulted in the inclusion of a range of assets that previously were not included in the asset register onto the register. This has resulted in a significant increase in depreciation relative to previous years. The final audited amount for depreciation for the 2016/17 financial year amounted to **R112 million**. Due to organisational constraints and the minimal increases in revenues, the municipality is phasing in the depreciation amount over the MTREF so as to ensure that this expenditure does not unfavourably affect the service tariffs.

The provision of debt impairment was determined based on an annual collection rate of 85%. While this expenditure is considered to be a non-cash flow item, it informs the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues. The debt impairment provision was also increased taking into account the current outstanding municipal debt.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital). The municipality is currently servicing the DBSA loan.

11. Capital expenditure

The following table provides a breakdown of budgeted capital expenditure by Council vote.

Table 7 Budgeted Capital Expenditure by Vote, Standard Classification and funding

Vote Description	Ref	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
R thousand	1	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Capital expenditure - Vote								
Multi-year expenditure to be appropriated	2							
Vote 01 - Executive & Council		–	–	–	–	–	–	–
Vote 02 - Municipal Manager		–	–	–	–	–	–	–
Vote 03 - Corporate Services		–	–	–	–	–	–	–
Vote 04 - Finance Services		–	–	–	–	–	–	–
Vote 05 - Technical Services		42 150	54 587	54 587	34 092	58 931	–	–
Vote 06 - Community Services		10 983	5 144	5 144	346	–	–	–
Vote 07 - Local Economic Development		–	–	–	–	–	–	–
Vote 08 -		–	–	–	–	–	–	–
Vote 09 -		–	–	–	–	–	–	–
Vote 10 -		–	–	–	–	–	–	–
Vote 11 -		–	–	–	–	–	–	–
Vote 12 -		–	–	–	–	–	–	–
Vote 13 -		–	–	–	–	–	–	–
Vote 14 -		–	–	–	–	–	–	–
Vote 15 - Other		–	–	–	–	–	–	–
Capital multi-year expenditure sub-total	7	**53 133**	**59 732**	**59 732**	**34 438**	**58 931**	**–**	**–**
Single-year expenditure to be appropriated	2							
Vote 01 - Executive & Council		–	–	–	–	–	–	–
Vote 02 - Municipal Manager		–	–	–	–	–	–	–
Vote 03 - Corporate Services		650	678	678	207	750	–	–
Vote 04 - Finance Services		1 050	1 082	1 082	42	1 095	–	–
Vote 05 - Technical Services		5 943	4 136	4 136	82	3 819	–	–
Vote 06 - Community Services		4 608	3 308	3 308	32	14 316	–	–
Vote 07 - Local Economic Development		900	1 284	1 284	51	1 113	–	–
Vote 08 -		–	–	–	–	–	–	–
Vote 09 -		–	–	–	–	–	–	–
Vote 10 -		–	–	–	–	–	–	–
Vote 11 -		–	–	–	–	–	–	–
Vote 12 -		–	–	–	–	–	–	–
Vote 13 -		–	–	–	–	–	–	–
Vote 14 -		–	–	–	–	–	–	–
Vote 15 - Other		–	–	–	–	–	–	–
Capital single-year expenditure sub-total		**13 150**	**10 488**	**10 488**	**414**	**21 092**	**–**	**–**
Total Capital Expenditure - Vote		**66 283**	**70 219**	**70 219**	**34 852**	**80 023**	**–**	**–**
Capital Expenditure - Functional								
Governance and administration		**2 658**	**2 863**	**2 863**	**253**	**13 260**	**–**	**–**
Executive and council		–	–	–	–	10 395	–	–
Finance and administration		2 658	2 863	2 863	253	2 865	–	–
Internal audit								
Community and public safety		**7 093**	**7 354**	**7 354**	**152**	**2 374**	**–**	**–**
Community and social services		–	–	–	–	–	–	–
Sport and recreation		2 800	3 184	3 184	70	305	–	–
Public safety		4 293	4 171	4 171	82	2 069	–	–
Housing		0	–	–	–	–	–	–
Health								
Economic and environmental services		**18 728**	**25 400**	**25 400**	**14 913**	**41 236**	**–**	**–**
Planning and development		100	55	55	–	58	–	–
Road transport		18 628	25 345	25 345	14 913	41 178	–	–
Environmental protection		–	–	–	–	–	–	–
Trading services		**37 805**	**34 602**	**34 602**	**19 533**	**23 153**	**–**	**–**
Energy sources		2 909	3 293	3 293	1 196	–	–	–
Water management		14 678	15 038	15 038	9 387	15 750	–	–
Waste water management		9 785	13 077	13 077	8 595	3 753	–	–
Waste management		10 433	3 194	3 194	355	3 650	–	–
Other								
Total Capital Expenditure - Functional	3	**66 283**	**70 219**	**70 219**	**34 852**	**80 023**	**–**	**–**
Funded by:								
National Government		51 817	47 440	47 440	33 820	55 178	–	–
Provincial Government								
District Municipality								
Other transfers and grants								
Transfers recognised - capital	4	**51 817**	**47 440**	**47 440**	**33 820**	**55 178**	**–**	**–**
Borrowing	6							
Internally generated funds		14 466	22 780	22 780	1 032	24 845	–	–
Total Capital Funding	7	**66 283**	**70 219**	**70 219**	**34 852**	**80 023**	**–**	**–**

Table 8 CAPITAL GRANT FUNDING

PROJECT DESCRIPTION	TOWN/AREA	WARD	FUNDING	GRANT
Moqhaka: Installation of sewer for 4000 new erven in Rammulotsi (northleigh)	Rammulotsi	21	R 1 213 395	✓
Rammulotsi: Development and fencing of new landfill site - phase 2 (MIS:215370)	Rammulotsi	21	R 7 669 474	✓
Maokeng/Nyakallong: Upgrading of Community and Sports Facility (MIS:249771)	Maokeng	7	R 1 808 010	✓
Brentpark: Construction of 0.96km paved road and storm water channel to Brentpark Stadium (MIS:269933)	Brentpark	13	R 567 127	✓
Seisoville: Construction of 0.750km paved road and storm water drainage at Ntanga street (MIS:272675)	Maokeng	15	R 736 901	✓
Maokeng (Koekoe Village): Upgrading of 0.93km Storm Water System and Channeling of Vlei Areas – Phase 2	Maokeng	13	R 3 540 148	✓
Maokeng: Upgrading of paved road 28331 – 28348 (0.56km) with storm water channels	Maokeng	8	R 9 083 777	✓
Northleigh: Construction of Pressure Tower Phase 1	Rammulotsi	21-22	R 1 351 882	✓
Brentpark/Seisoville: Construction of sewer reticulation network for 200 erven - Phase 1	Brentpark	13 & 15	R 6 699 000	✓
Water Services Infrastructure Grant	Moqhaka	All	R 15 000 000	✓

Table 9 Capital-Own Funding

The following table is a breakdown of the own funding on capital expenditure:

CAPITAL BUDGET (Own Funds)								
Description	Political Offices	Municipal Manager	Finance Services	Corporate Services	Technical Services	Community & Social Services	LED	TOTAL
FLEET, HEAVY MECHINERY AND EQUIPMENT			1 000 000		1 750 000	5 000 000	595 000	8 345 000
OFFICE FURNITURE			94 500				460 000	554 500
ICT HARDWARE				750 000				750 000
MATLWANGTLWANG DRY SANITATION					3 752 880			3 752 880
DISASTER MANAGEMENT						10 395 000		10 395 000
GPS MACHINE PLANNING							57 750	57 750
COMPLETE COMPUT						105 000		105 000
MOBILE TOILETS						165 690		165 690
TOTAL CAPITAL BUDGET	**-**	**-**	**1 094 500**	**750 000**	**5 502 880**	**15 665 690**	**1 112 750**	**24 125 820**

12. Cash flow Statement

Table 10 Budget Cash Flows

FS201 Moqhaka - Table A7 Budget Cash Flows				
Description	2019/20 Medium Term Revenue & Expenditure Framework			
R thousand	Adjustment Budget 2018/19	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
CASH FLOW FROM OPERATING ACTIVITIES				
Receipts				
Property rates, penalties & collection charges	57 906	80 505	84 852	89 434
Service charges	441 877	467 903	493 170	519 801
Other revenue	38 220	20 744	21 864	23 045
Government - operating	189 359	209 803	221 132	233 074
Government - capital	49 410	55 178	58 132	61 298
Interest	9 882	21 396	22 551	23 769
Dividends	–	–	–	–
Payments				
Suppliers and employees	(725 211)	(730 045)	(730 045)	(769 467)
Finance charges	(2 669)	(3 475)	(3 475)	(3 663)
Transfers and Grants	–			
NET CASH FROM/(USED) OPERATING ACTIVITIES	**58 774**	**122 009**	**168 181**	**177 291**
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts				
Proceeds on disposal of PPE	–	–	–	–
Decrease (Increase) in non-current debtors	–	–	–	–
Decrease (increase) other non-current receivables	–	–	–	–
Decrease (increase) in non-current investments	–	–	–	–
Payments				
Capital assets	(49 410)	(80 023)	(84 344)	(88 897)
NET CASH FROM/(USED) INVESTING ACTIVITIES	**(49 410)**	**(80 023)**	**(84 344)**	**(88 897)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Receipts				
Short term loans	–	–	–	–
Borrowing long term/refinancing	–	–	–	–
Increase (decrease) in consumer deposits	–	–	–	–
Payments				
Repayment of borrowing	(3 200)	(3 200)	(3 200)	(3 200)
NET CASH FROM/(USED) FINANCING ACTIVITIES	**(3 200)**	**(3 200)**	**(3 200)**	**(3 200)**
NET INCREASE/ (DECREASE) IN CASH HELD	**11 091**	**38 786**	**80 637**	**85 194**
Cash/cash equivalents at the year begin:	579	579	39 365	120 002
Cash/cash equivalents at the year end:	**11 670**	**39 365**	**120 002**	**205 196**

REMARKS ON THE CASHFLOW

The cash flows have been projected on the various revenue streams based on the actual collection rate of the revenue streams.

Revenue Description	Collection Rate
Property Rates	100%
Electricity revenue	85%
Water revenue	85%
Sanitation revenue	85%
Refuse revenue	85%
Operating & Capital grants	100%
Other Income	85%
Average Collection	**89%**

The municipality has also made provision to meet **90%** of its overall Operational obligations. This provision is to be reviewed during the adjustment budget process depending on the availability of additional revenues and 100% of the Capital commitments. The 5% variance between the revenue collection and the expenditure, will be subsidised through the additional revenue enhancement mechanisms and the collection of outstanding debt.

Collections from Arrear Debtors

The municipality's debtors book amounted to **R652m** as at 28 February 2019. The municipality plans to collect at least **15% (R98m)** of its arrear debt in order to fund the outstanding creditors and other operational requirements during the budget year. However, it should be noted that about **3**% (**R19m**) of this outstanding debt has repayment agreements in place. The municipality's priority will be in ensuring that the debtors with arrangements do honour these arrangements.

The municipality owes Eskom **R291m** as at the preparation of the Annual Budget 2019/20. The arrangement the municipality had with Eskom with regards to the outstanding debt expired on the 31 January 2019, and as a result a new arrangement has to be negotiated with Eskom regarding this arrear debt. The repayments relating to the current account are already provided for within the annual budget.

The municipality has finalised the compilation of a Revenue Enhancement Strategy, and amongst other things, the municipality is also prioritising the reduction/elimination of the **reticulation losses** (Water is currently at **R20m** & Electricity at **R47m** – as per the Audited Annual Financial Statements of 30 June 2018) through its continuous program of water and electricity meter replacements. To effectively carry out this task, the municipality appointed a panel of service providers to speed up the replacement of faulty water and electricity meters.

13. Long term borrowing

The municipality has not obtained any new long term borrowings in the current financial year. The table below indicates the balances as at 28 February 2019 and the projections for the current and the next MTREF.

Table 11 Municipal Borrowing

FS201 Moqhaka - Supporting Table SA17 Borrowing										
Borrowing - Categorised by type	Ref	2015/16	2016/17	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Parent municipality										
Annuity and Bullet Loans		21 358	22 366	22 662	22 662	22 662	22 662	23 795	25 080	26 434
Long-Term Loans (non-annuity)										
Local registered stock										
Instalment Credit										
Financial Leases										
PPP liabilities										
Finance Granted By Cap Equipment Supplier										
Marketable Bonds										
Non-Marketable Bonds										
Bankers Acceptances										
Financial derivatives										
Other Securities										
Municipality sub-total	1	21 358	22 366	22 662	22 662	22 662	22 662	23 795	25 080	26 434

14. Performance Management

The municipality has adopted a Performance Management System (PMS). The PMS requires that the Municipal Manager and all Senior Managers accountable to the Municipal Manager sign performance agreements annually in line with the IDP Review, the Budget and the Service Delivery and Budget Implementation Plan (SDBIP).

It is further expected that Senior Managers enter into performance contracts with the Divisional Managers (Managers reporting to Senior Managers). The performance system is cascaded down to the entry level in the organisation.

The Municipal Manager, Senior Managers and divisional heads are evaluated against the Key Performance Indicators and the job description for each incumbent.

The performance contracts of Municipal Manager and Senior Managers include performance bonus, this is budgeted for, even though performance bonuses were never paid before.

All divisional heads, in the same manner as the Senior Managers and the Municipal Manager sign annual performance agreements and must be assessed accordingly. Monthly and quarterly reporting performance is compulsory with quarterly performance reports submitted to the Internal Audit for verification purposes, and the Executive Mayor submitting these to Council within 30 days after the end of the quarter.